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# EXECUTIVE SECRETARIAT

## Routing Slip

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| 17 | SA/IA | | | | |
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| 20 | NIO/ECON | ✓ | | | |
| 21 | | | | | |
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| | SUSPENSE | | Date | | |

Remarks:

STAT

Executive Secretary
11/12/82
Date

3637 (10-81)

NIO/Econ

NSC review completed.

(Copied to C/NIC, VC/NIC, NIO/LA)

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THE WHITE HOUSE
WASHINGTON

Executive Registry
82-12591/2

# CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 11/10/82 NUMBER: ---------- DUE BY: _____

SUBJECT: Cabinet Council on Economic Affairs Minutes - 10/20/82

| | ACTION | FYI |
|---|---|---|
| ALL CABINET MEMBERS | ☐ | ☑ |
| Vice President | ☐ | ☐ |
| State | ☐ | ☐ |
| Treasury | ☐ | ☐ |
| Defense | ☐ | ☐ |
| Attorney General | ☐ | ☐ |
| Interior | ☐ | ☐ |
| Agriculture | ☐ | ☐ |
| Commerce | ☐ | ☐ |
| Labor | ☐ | ☐ |
| HHS | ☐ | ☐ |
| HUD | ☐ | ☐ |
| Transportation | ☐ | ☐ |
| Energy | ☐ | ☐ |
| Education | ☐ | ☐ |
| Counsellor | ☐ | ☐ |
| OMB | ☐ | ☐ |
| CIA | ☐ | ☐ |
| UN | ☐ | ☐ |
| USTR | ☐ | ☐ |
| CEA | ☐ | ☑ |
| CEQ | ☐ | ☐ |
| OSTP | ☐ | ☐ |
| _____ | ☐ | ☐ |
| _____ | ☐ | ☐ |

| | ACTION | FYI |
|---|---|---|
| Baker | ☐ | ☑ |
| Deaver | ☐ | ☐ |
| Clark | ☐ | ☑ |
| Darman *(For WH Staffing)* | ☑ | ☐ |
| Harper | ☐ | ☑ |
| Jenkins | ☐ | ☑ |
| Wheeler | ☐ | ☑ |
| Kudlow | ☐ | ☑ |
| _____ | ☐ | ☐ |
| _____ | ☐ | ☐ |
| _____ | ☐ | ☐ |
| _____ | ☐ | ☐ |
| _____ | ☐ | ☐ |
| _____ | ☐ | ☐ |
| CCCT/Gunn | ☐ | ☑ |
| CCEA/Porter | ☐ | ☑ |
| CCFA/Boggs | ☐ | ☑ |
| CCHR/Carleson | ☐ | ☑ |
| CCLP/Uhlmann | ☐ | ☑ |
| CCMA/Bledsoe | ☐ | ☑ |
| CCNRE/Boggs | ☐ | ☐ |

REMARKS: Attached are the revised minutes of the October 20 meeting of the Cabinet Council on Economic Affairs. Please destroy the copy which was sent to you on 11/2/82.

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ATTACHMENTS

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☑ Becky Norton Dunlop
Director, Office of
Cabinet Affairs
456-2800

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MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

October 20, 1982
8:45 a.m.
Roosevelt Room

Attendees: The Vice President, Messrs. Regan, Stockman, Feldstein, Harper, Porter, Wallis, Lyng, Fiske, Trent, Darman, McNamar, Knapp, Feldman, Leland, Kudlow, Cogan, Platt, Cicconi, Nau, Ernst, and Denend, Ms. Risque and Ms. Dunlop.

1. Latin American Debt Situation

Deputy Secretary McNamar reported on the status of the debt problems of three Latin American countries:

1. Mexico - The IMF negotiating team which left Mexico in mid-October made substantial progress and departed with a draft letter of intent. Negotiations to resolve the principal remaining issue, the ratio of the budget deficit to gross domestic product, should resume again soon. As a result of the most recent negotiations, interest rates should begin to stabilize before the end of the month, and the peso will begin a controlled devaluation.

   On October 18, the final $137 million was drawn on the first tranche of the $1.85 billion Bank for International Settlements (BIS) swap arrangement. The U.S. position is to go slow on replenishment.

   An interagency group is examining a variety of trade, financial and investment measures which might be used to provide additional assistance to Mexico after President-elect de la Madrid is inaugurated December 1.

   The Council discussed additional measures which might be necessary to restore health to the Mexican economy. A major part of U.S. assistance has been CCC credits for agricultural loans. Despite the amount of aid committed to date, the Mexican economy remains in crisis; there will be major liquidity demands in 1983. There is a fundamental requirement to restore the confidence of potential investors in Mexico.

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Classified by D.C. Templeman
Review for Declassification on 10/19/88

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2. Argentina - Although negotiations between Argentine officials and the banks broke down in early October over the necessity for an agreement with the IMF, they are expected to resume again shortly. Argentine financial relations with the United Kingdom continue to improve; however, trade relations remain stalemated. The pace of negotiations with the IMF has picked up since the lapse in talks with the commercial banks. A letter of intent could be signed soon.

   The Council concluded that Argentina's prospects to avoid default are good. The Argentine economy was not damaged during the Falklands War, and Argentina is currently maintaining a current account surplus. An agreement with the BIS for short-term liquidity assistance has not proved possible, but the negotiations are underway. The real key to Argentina's future is political will. It appears that Argentina is prepared to put its economic house in order.

3. Brazil - The financial markets remain nervous about lending to Brazil as deterioration in Brazil's reserve position becomes more widely known. The Brazilian government has agreed to make some significant economic policy adjustments to improve its external account.

   The Council reviewed the sensitive reserve situation created in Brazil due to political factors. Because of pending elections in the middle of November, the Brazilians feel unable to make the necessary policy changes to provide them with needed access to the financial markets. It is not clear whether the Brazilian government will be able to sustain the perception until after the elections that reserves are adequate.

The Council discussed the broader dimensions of current LDC debt problems. Present debt problems are at least in part the result of the current disinflation phenomenon. Taken in the aggregate, it is possible to project a pessimistic scenario regarding the requirements for new liquidity next year and the exposure of U.S. banks. However, such an outcome is unlikely. With the political will necessary to



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modify domestic policies, it should be possible to handle each of the problem countries within the international financial system. U.S. policy makers must remain mindful of the potential drain on U.S. resources and the implications for global inflation.

2. U.S.-E.C. Steel Negotiations

In the absence of Secretary Baldrige, Mr. Porter summarized the status of the U.S.-E.C. steel negotiations.

At the time of the meeting the U.S. was awaiting a response indicating that the German Cabinet had accepted the formulation agreed to by all of the other European Community countries and the U.S. The proposed arrangement would include separate quotas for imports of E.C. regular carbon steel and for pipe and tube steel into the U.S.

The Council noted that although this agreement was essentially protectionist, the resolution of this dispute is important for overall U.S.-E.C. trade relations. The Council noted Secretary Baldrige's extraordinary tenacity and patience in seeing the negotiations through to a conclusion.

3. Third Quarter GNP

Mr. Feldstein reported that the Department of Commerce will announce today that the GNP increased in the third quarter by 0.8 percent, slightly lower than the earlier flash figure estimate of 1.5 percent. Final sales decreased during the third quarter. The rise in inventories during the third quarter increases concern about the prospect for growth in production in the fourth quarter.

4. Nobel Prize for Economics

The Council noted with enthusiasm that Professor George Stigler of the University of Chicago has been awarded the 1982 Nobel Prize for Economics.



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